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The Economic Situation in South Vietnam (Weekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

During February two new measures were enacted to increase government revenues from imports. In 1968 taxes on foreign trade, which are the easiest taxes to collect in South Vietnam, accounted for almost half of total revenues from taxation. Additional tax measures are under consideration, but officials apparently have ruled out any that require legislative approval.

Members of 33 independent unions have formed a new trade union confederation.

Data on Saigon retail prices and free market currency rates for the week ending 3 March were not available at the time of publication and will be reported in the next issue of this report.

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New Revenue Measures

1. During February the Thieu government enacted, apparently by executive decree, two tax measures that will add significantly to government revenues. Both affect the level of revenues from imports, which in 1968 accounted for almost half of total revenues from taxation. The first measure, effective on 15 February, was an increase in the perequation tax, a special form of customs duty, on imports of cement, wheat flour, and sugar. The second, promulgated by Prime Minister Huong on 28 February, was a new tariff schedule on all imported goods. This new schedule, the first major revision of import duties since 1964, was drawn up by a joint US/Vietnamese committee which has been working on a revision of the tariff schedule since 1967. Assuming normal business conditions and some increase in imports in 1969, these two tax revisions are expected to result in almost seven billion piasters of additional revenue this year, an amount equal to about one fourth of all government revenues from imports during 1968.

2. The new tax measures are among several that US officials have been urging the Vietnamese Government to enact in an effort to slow inflation. One of the major sources of inflation this year will be the anticipated 50 billion piaster budget deficit, the largest during the war years. In South Vietnam, the easiest and most efficient method of increasing government revenues is to raise taxes on imports. Income and property taxes are difficult to collect and other internal taxes, such as excise taxes which are specific in nature and thus do not increase as the price level increases, were raised last year. Although revenues from imports could be increased further by changing the exchange rate used for customs valuation from 80 piasters to US \$1 to 118 piasters to US \$1,* Minister of Economy Ho apparently has ruled out such a change. He has indicated,

**The official exchange rate is 80 piasters to US \$1, but all transactions are conducted at an actual rate of 118 piasters to US \$1 which includes a 38 piaster surtax.*

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however, that the government will consider levying the perequation tax on a greater number of imported goods. He also has told US officials that the executive branch will not undertake any tax measures that require the approval of the National Assembly. This position reflects the oft-expressed aversion of top Vietnamese economic officials to dealing with the legislature, and it probably has been reinforced by the current legislative-executive hassle over the passage of the 1969 budget.

New Trade Union Confederation

3. The formation of a new trade union confederation was announced early this month in Saigon by members of 33 independent unions who joined together ostensibly to compete with the powerful Vietnamese Confederation of Labor (CVT). The CVT has long been the largest and only cohesive trade union group in South Vietnam, and its leader, Tran Quoc Buu, has been a staunch anti-Communist and supporter of the government on most occasions. The new group, to be known as the Vietnam Confederation of Industrial and Agricultural Workers, reportedly has received the verbal approval of Minister of Labor Hien and expects little difficulty in getting official government recognition. Hien, a former CVT official, and Buu reportedly have been quietly encouraging the new confederation as a means of strengthening non-CVT unions against possible penetration by the Viet Cong and manipulation by political groups. The new confederation, which claims a membership of 25,000, will be under the provisional leadership of Tran Sinh, a journalist with no previous trade union experience. Sinh claims the confederation will deal only with economic issues and will cooperate with the CVT on a case by case basis.

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